# HOUSING MARKET OUTLOOK
## Saguenay CMA

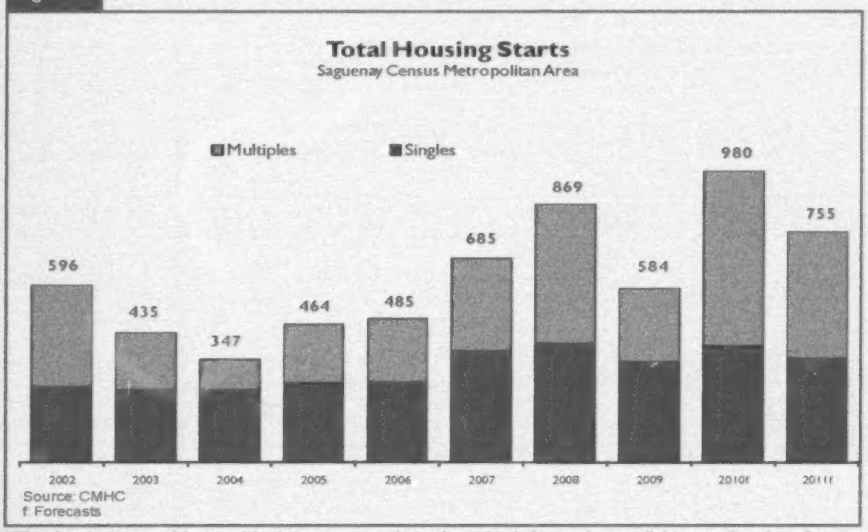
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2010

## HIGH LEVELS OF CONSTRUCTION EXPECTED IN 2011[1]

Firstly, the many rental housing construction projects will drive the new housing market in the Saguenay census metropolitan area (CMA) in 2011. Secondly, the favourable conditions for residential construction will support single-detached housing starts, which will reach a high level in 2010. However, the slowdown in housing demand will adversely affect construction in this segment in 2011. Lastly, resale market activity, which was affected by exceptional economic conditions this year, will return to a more normal pace in 2011.

Figure 1




[1] The forecasts provided in this document are based on the information available on October 8, 2010.

Table of Contents

2 Economy and employment...
2 Mortgage rates
3 Demographics...
3 Resale market...
4 New home market...
4 Detailed results for 2010...
4 Forecasts for 2011...
4 Traditional rental market...
4 Forecast summary

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at www.cmhc.ca/housingmarketinformation. View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

## ECONOMY AND EMPLOYMENT: GAINS MADE IN 2010 TO BE CONSOLIDATED IN 2011

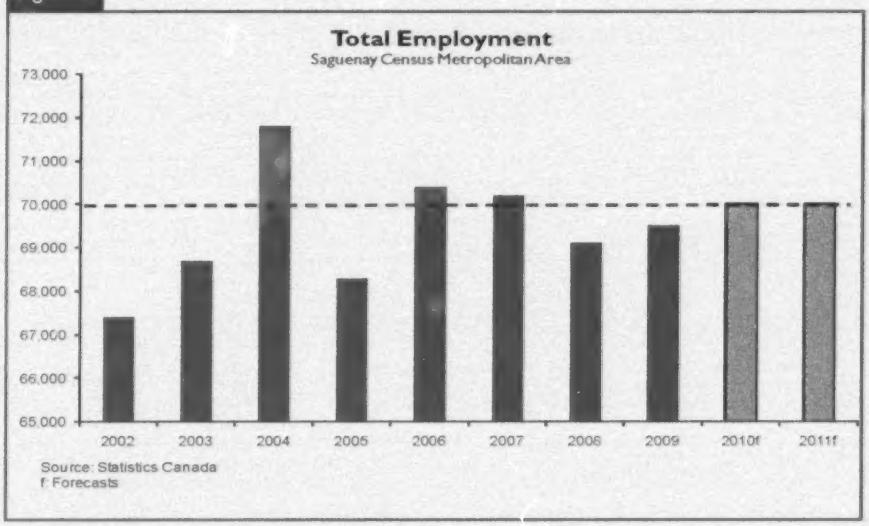
The Saguenay area economy is operating in a context of economic recovery, as a number of construction and renovation projects are under way and will soon be completed. In addition, with the global economic growth and the increase in raw material prices, private investments are more likely to return to a steady pace.

However, there are still doubts about the strength of the economic growth in the United States, the Saguenay area's main economic partner. As a result, employment in the manufacturing and transportation sectors is weakened in the area. The downward revision of the economic growth outlook and the impact on the area's economy will limit additional job gains in 2011. The average employment level is therefore expected to remain stable next year, with an average of 70,000 persons employed. The construction and services sectors contributed to the net job creation in 2010, pushing up employment from 69,500 to 70,000.

## MORTGAGE RATES

On September 8th, the Bank of Canada increased the Target for the Overnight Rate from 0.75 per cent to 1.00 per cent. This is the third 25 basis point increase since April 2010, when the rate was at a historical low of 0.25 per cent. With the overnight rate expected to remain flat, mortgage rates, particularly short term mortgage rates and variable mortgage rates, are also expected to remain steady at current levels.

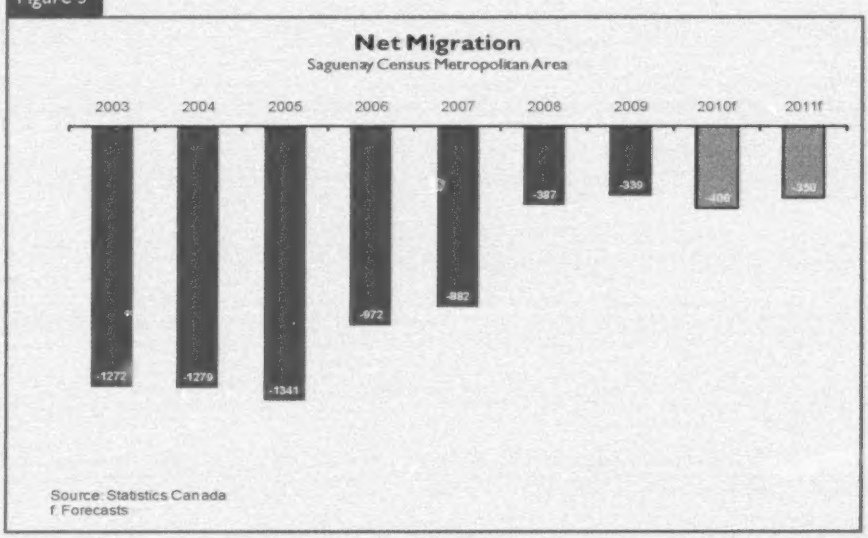
Figure 2




According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Figure 3



## DEMOGRAPHICS: STRUCTURAL CHANGES REMAIN UNAVOIDABLE

The Saguenay area population has been declining for the past several years. However, this decline is subsiding thanks to an increase in net migration that can be explained by the fact that fewer and fewer people are leaving the area. For one thing, young people, who are more mobile and have a higher tendency to leave the area, have better employment opportunities than before, which is helping to keep them in the area. For another, the aging of the population has been contributing to the decrease in the outflow. Given that young people account for an increasingly smaller share of the population and that fewer of them are leaving the area, they are having a lesser impact on the decline in the population. Finally, it should be noted that many people originally from the area might also move back there. That being said, the area's population will still continue to decrease gradually, according to our demographic projections.

In spite of the decreasing population, housing demand continues to grow in the area. It is estimated that the number of households is still climbing as a result of separations and the increasing prevalence of single-person households. The more favourable economic environment could also be contributing to this increase. However, these factors will not be enough to maintain the growth. According to our projections, the number of new households will gradually decrease in the area, which means that the overall housing demand is bound to weaken over the longer term. Nevertheless, people aged 55 years or older will greatly influence housing demand as they will represent a significant share of households. The aging of the population will therefore progressively change the prevailing housing needs. Some housing types that meet the need for less space, such as condominiums or semi-detached homes, or for special services, such as retirement homes, could be in greater demand.

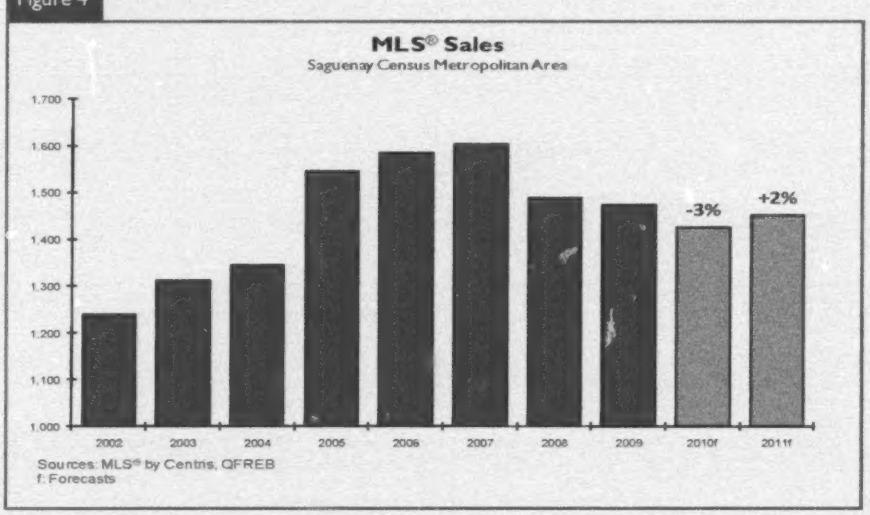
## RESALE MARKET ACTIVITY TO PICK UP SLIGHTLY IN 2011

MLS® resale transactions are expected to climb by less than 2 per cent in 2011, for a total of 1,450 sales. The progressively slower household formation will limit the increase in resale transactions. This small gain will follow the market adjustment in 2010.

As expected, the strong rebound in housing demand that began in the middle of 2009 has weakened in 2010. The effects of some buyers catching up, after putting off their buying decision in 2008, and others moving up their home purchases, on account of the anticipated increases in interest rates, have tapered off. The resale market was the first housing market to cool down in the second quarter of 2010. As this occurred slightly sooner than expected, we had to adjust our forecast downward this past August. After reaching a low point, resale market activity has picked up. Overall, MLS® sales are expected to reach 1,425 units in 2010, for a decrease of 3 per cent in relation to 2009.

The vigorous demand in mid-2009 brought down the supply on the resale market, as the number of active listings dropped. The persistently strong demand at the beginning of 2010 and the slower rise in listings continued to contribute to the tightening of the market and supported the growth in prices. Despite the softening of the demand in the second quarter of 2010, the price increases recorded will be reflected in the overall results for 2010. It is estimated that a buyer will have to pay an average of $163,000 for a home in 2010, or 7 per cent more than in 2009. There was also some spillover of demand from the resale market to the new home market. In 2011, the slight increase in demandcombined with a growing supply will reduce the pressure on the market and result in a price increase of close to 4 per cent.

Figure 4



## NEW HOME MARKET: MULTI-FAMILY HOUSING SETS THE TONE

The slowdown in demand for single-detached homes will be felt in 2011, but multi-family housing construction will keep a fairly steady pace, compared to the last few years. Although housing starts are expected to fall in 2011, the level of activity will still be relatively significant, with 775 new units.

The housing craze was also felt on the new home market. The 2010 results for the residential construction sector will surpass the peak reached in 2008. We estimate that 980 units will be started this year, nearly 400 more than in 2009 and over 100 more than in 2008.

## DETAILED RESULTS FOR 2010: HEADING FOR A NEW PEAK

Closely in line with the activity on the resale market, single-detached home construction will slow down progressively. Still, the strong activity registered at the beginning of the year will lead to a large gain in housing starts, which should reach 390 units in 2010, up 53 units from 2009 and near the peak attained in 2008.

Multi-family housing construction will be very significant in 2010, with 590 units started, or more than double the 247 new units recorded last year. Semi-detached and row housing will be the only segment to show a decrease (17 per cent). In addition, the low financing costs likely enabled a number of households to purchase a single-detached home, thereby decreasing demand for these housing types.

Rental housing construction will be particularly vigorous in 2010 and 2011. The low vacancy rates are favouring the addition of units on the rental market. In fact, the many seniors' housing projects will strongly contribute to the increase in housing starts in 2010. However, as some projects will start at the end of 2010 or the beginning of 2011, it is difficult to accurately predict the specific start date of the major projects; some could begin in early 2011 instead of 2010, which would decrease the number of starts enumerated in 2010 and increase the number expected for 2011.

## FORECASTS FOR 2011: PACE TO REMAIN STRONG DESPITE SLOWDOWN

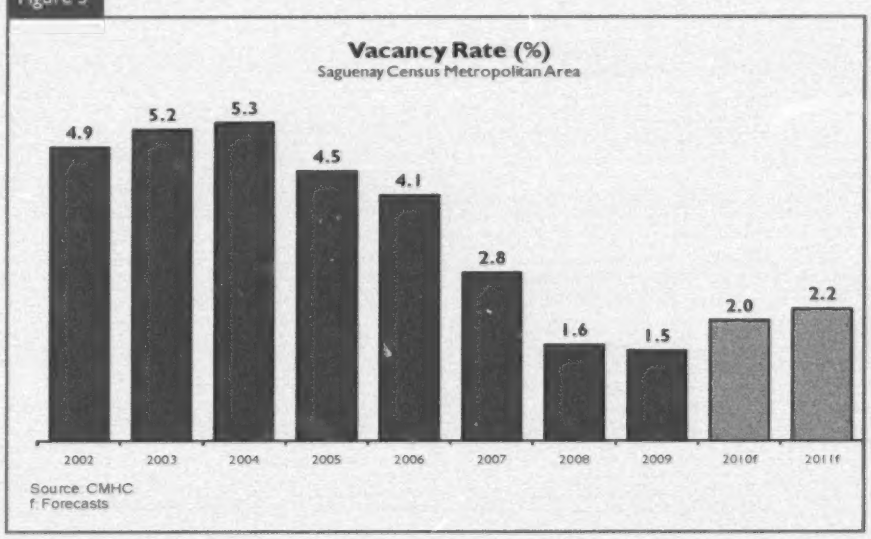
The stable employment level and the weaker housing demand due to a gradual slowdown in household formation and even a decline in the case of younger households are factors that will contribute to curbing single-detached home starts in 2011. It is estimated that foundations will be laid for 350 houses in 2011, down 10 per cent from 2010.

In the multi-family housing segment, freehold (semi-detached, row and duplex) home construction should rise slightly in 2011 (+5 per cent) thanks to market conditions that will tend to favour more affordable housing types. In addition, fewer retirement housing units will be started in 2011. However, the construction of rental housing, excluding retirement homes, should increase compared to 2010. In total, 425 multi-family dwellings will be started. Overall, construction should get under way on 775 units in 2011. This level of activity, while down 21 per cent in relation to 2010, remains historically high.

## TRADITIONAL RENTAL MARKET EXPECTED TO EASE

The steady decrease in the vacancy rate for rental housing (private structures with three or more apartments, excluding retirement homes) in recent years opened the way for more housing activity. Already in 2009, housing starts in this market segment were showing renewed strength, and then construction picked up the pace in 2010. In addition,

Figure 5



exceptional financing conditions also favoured the movement to homeownership, which contributed to the easing of the market. The spring 2010 survey of the traditional rental market revealed an increase in the availability rate. This indicator and our analysis of the market confirm that the vacancy rate is climbing and could reach 2 per cent in October 2010.

With the pace of residential construction being maintained, the vacancy rate will rise again in 2011. However, this increase will be smaller than previous hikes. In addition, the increase in property prices and the improvement in net migration will continue to support the strong demand on the rental market. According to our forecasts, the vacancy rate will attain 2.2 per cent in October 2011.

| Forecast Summary<br>Saguenay CMA<br>Fall 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010f | % chg | 2011f | % chg |
| **Resale Market** | | | | | | | |
| MLS® Sales | 1,603 | 1,488 | 1,472 | 1,425 | -3.2 | 1,450 | 1.8 |
| MLS® Active Listings | 649 | 654 | 746 | 775 | 3.9 | 800 | 3.2 |
| MLS® Average Price ($) | 130,803 | 144,213 | 151,911 | 163,000 | 7.3 | 169,000 | 3.7 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 373 | 400 | 337 | 390 | 15.7 | 350 | -10.3 |
| Multiples | 312 | 469 | 247 | 590 | 138.9 | 425 | -28.0 |
| Starts - Total | 685 | 869 | 584 | 980 | 67.8 | 775 | -20.9 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 178,276 | 184,719 | 193,687 | 202,000 | 4.3 | 208,000 | 3.0 |
| New Housing Price Index (% chg) (Que.) | 4.2 | 5.0 | 3.1 | n. a. | - | n. a. | - |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 2.8 | 1.6 | 1.5 | 2.0 | - | 2.2 | - |
| Two-bedroom Average Rent (October) ($) | 490 | 518 | 518 | 535 | - | 545 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 6.90 | 6.70 | 4.02 | 3.47 | - | 3.20 | - |
| Mortgage Rate (5 year) (%) | 7.07 | 7.06 | 5.63 | 5.59 | - | 5.20 | - |
| Annual Employment Level | 70,200 | 69,100 | 69,500 | 70,000 | 0.7 | 70,000 | 0.0 |
| Employment Growth (%) | -0.3 | -1.6 | 0.6 | 0.7 | - | 0.0 | - |
| Unemployment rate (%) | 8.8 | 8.5 | 8.6 | 8.4 | - | 8.4 | - |
| Net Migration | -882 | -387 | -339 | -400 | 18.0 | -350 | -12.5 |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®, Statistics Canada (CANSIM)

**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

# CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 60 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable homes – homes that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

©2010 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

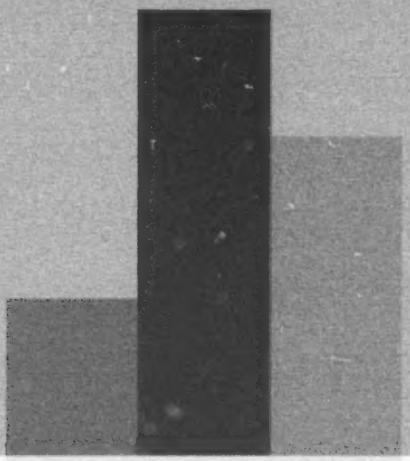
Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact: the Canadian Housing Information Centre (CHIC) at mailto:chic@cmhc.gc.ca; 613-748-2367 or 1-800-668-2642.

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

# Housing market intelligence you can count on



FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Renovation and Home Purchase Report
- Rental Market Provincial Highlight Reports *Now semi-annual!*
- Rental Market Reports, Major Centres
- Rental Market Statistics *Now semi-annual!*
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports
- Seniors' Housing Reports - Supplementary Tables, Regional

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis –** Future-oriented information about local, regional and national housing trends.
- **Statistics and Data –** Information on current housing market activities — starts, rents, vacancy rates and much more.

**Get the market intelligence you need today!**

**Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.**

**2010 CANADIAN HOUSING OBSERVER, *with a feature on Housing and the Economy***

National in scope, comprehensive in content and analytically insightful, the Canadian Housing Observer lays out a complete picture of housing trends and issues in Canada today. Access additional online data resources and download your FREE copy today!

64283_2010_B02